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ZNR UUUUU ZZH
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FM AMCONSUL MUMBAI
TO RUEHC/SECSTATE WASHDC PRIORITY 7199
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHNE/AMEMBASSY NEW DELHI PRIORITY 8428
RUEHCI/AMCONSUL KOLKATA PRIORITY 1843
RUEHBI/AMCONSUL MUMBAI PRIORITY 2397
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
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RUEATRS/DEPT OF TREASURY WASHINGTON DC
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UNCLAS SECTION 01 OF 04 MUMBAI 000195

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SUBJECT: BHARAT BALLOT 09: WILL POWER SECTOR POLITICS IN MAHARASHTRA
HURT CONGRESS-NCP CHANCES IN NATIONAL AND STATE ELECTIONS

REF: 05 MUMBAI 1155

MUMBAI 00000195 001.2 OF 004

Summary: (SBU) Maharashtra's struggle to bridge the energy supply gap symbolizes India's energy crisis, where politics and poor planning have left many states chronically short of power. Maharashtra is India's leading industrialized state. However, all districts in Maharashtra, excluding Mumbai, suffer from four to twelve hours of daily, scheduled power outages. Innovative models where the residents of a district pay more for the expediency of uninterrupted power have failed. Maharashtra's power woes were exacerbated by the collapse of the Dabhol power project and the state government's populist election promise to provide free power to farmers, which was retracted after one year following the unprecedented surge in demand. In office since 1999, the Congress-Nationalist Congress Party coalition government is largely responsible for the widespread failure to build new power plants in the state, a big factor in Maharashtra's deteriorating business and investment environment. However, it is unclear whether voters in the national and upcoming state elections will make this an issue, given most voters' low expectations for governance. As past experience indicates, election victories are driven not by good or bad policies (especially since all political parties are guilty of both), but by a mix of caste factors, and the marketability and appeal of future populist deliverables. End Summary.

Energy Shortage in Maharashtra Forces Rationing of Power Through Scheduled Power Outages

12. (U) According to the Central Electricity Authority (CEA), Maharashtra, India's largest industrialized state with the second highest population, leads almost all of the states in India in terms of energy shortages. In 2008-09, the state faced a 21 percent energy shortage and a peak demand deficit of 24 percent or 4,283 MW, as compared to the all-India power deficit of 11 percent and peak demand deficit of 12 percent. The anticipated energy shortage in Maharashtra is expected to increase to 31 percent or 42.3 billion kilowatt hours in 2009-10. This shortage is caused both by increasing demand by

residents, businesses, and industrial units, but also because the state's Congress-Nationalist Congress Party (NCP) coalition government has added so few units of power generating capacity since it came to office in 1999.

¶3. (U) In India, the federal and state governments both have jurisdiction over building and operating power generation plants. This dual responsibility for power generation has made it very difficult to co-ordinate, launch, and implement reforms needed to attract private, especially foreign, investment to build power plants in Maharashtra and most other Indian states. The federal government also owns and operates several power plants which allocate power to the different states in India. However, the task of purchasing and supplying power to the residents of India is entrusted to the state governments who manage these operations either through state government-owned companies or through licensed private domestic or foreign companies. Most electricity generation distribution companies in India are state government-owned with a few exceptions like the Tata and Reliance groups in Mumbai and the Torrent group-owned Ahmedabad Electricity Company in Gujarat. Each state can also frame policies to encourage foreign investors to participate in power generation and distribution.

¶4. (U) The crippling power shortage in Maharashtra has forced the state's electricity distribution company to ration energy supply to residents. All cities, towns and villages in Maharashtra, with the exception of Mumbai, face four to twelve hours of scheduled rolling power outages each day. The commercial capital of Mumbai is protected from power shortages through a unique islanding system which allows private electricity suppliers in the city to isolate themselves from the

MUMBAI 00000195 002.2 OF 004

western grid in the event of any system disturbance, thereby preventing the collapse of the power system in Mumbai. (Note: Admittedly, consumers in Mumbai pay higher power tariffs to enjoy the assurance of continuous, uninterrupted power. While consumers, depending on the type and amount of power consumed, pay less than 1 cent-15 cents per kilowatt-hour (kWh) of power outside Mumbai, consumers in Mumbai pay between 3 cents to 22 cents per kWh. End Note).

Dabhol and Free Power Election Sop Behind Maharashtra's Energy Crisis

¶5. (SBU) Maharashtra's energy woes were greatly exacerbated by the ill-fated Dabhol power project. In 1993, the state government-owned Maharashtra State Electricity Board (MSEB) signed a power purchase agreement with the Dabhol Power Company, jointly owned by three U.S. companies, Enron Corporation, Bechtel Corporation and General Electric, to develop a 2,184 MW natural-gas fired thermal power plant in the state. (Note: The MSEB was responsible for the generation, transmission and distribution of power to all consumers in Maharashtra, excepting Mumbai. It has subsequently been restructured into three separate companies which each separately handle the generation, transmission and the power distribution business. End Note.) The collapse of the Dabhol project due to a bitter and "politically loaded" payment contract dispute in 2001 caused a major contraction in power generation in Maharashtra. (Note: The Dabhol power project has since been taken over by government-owned entities but is still not generating at full capacity due to fuel shortages of naphtha and natural gas, and technical problems with its turbines. End Note). Power sector industry experts believe that the Maharashtra state government

expected that the power from the Dabhol project would be sufficient to meet the power requirements of the state and, therefore, made no attempt to develop or encourage other power projects to ramp up generation capacity.

¶6. (SBU) Three years later, in 2004, another Congress-NCP-led government in Maharashtra announced free power would be provided to all farmers in the state ahead of the Maharashtra assembly elections. The Congress-NCP once again won the state election, but the election sop caused a massive surge in the demand for power. (Note: Power sector experts claim that farmers used to keep their pumps running for the whole day and night since they got power at zero cost. End Note). According to the Maharashtra State Electricity Distribution Company, the peak demand for power increased by 12 percent in 2004-05, as compared to an earlier average increase of around three percent. This resulted in a peak demand deficit of around 3,500 MW in 2004-05 which was beyond the reach of the state electricity distribution company who was left with no choice but to ration power supply to residents. Faced with the huge surge in power demand, the Congress-NCP government had to retract its promise of free power a year later, in 2005, and to instead provide farmers with power at concessional rates (reftel). However, the peak demand deficit has remained above 3,000-4,000 MW, and rationing of power continues in the state even though its entitlement to power generated by federal government-owned power plants is second only to Uttar Pradesh.

¶7. (SBU) Maharashtra government energy officials and representatives of the ruling Congress party in the state were unable to explain to Congenoff why the state has not increased its own power generation capacity to bridge the excess demand gap. A spokesman for the Congress Party blamed the central government for the shortfall, and noted that the Congress pledged to prioritize power in its state campaign for the ongoing national elections. When Congenoff pointed out that the Congress also controlled the central government, and that power production was the responsibility of the state, the Congress

MUMBAI 00000195 003.2 OF 004

spokesman admitted that power shortages in the state would likely continue for "some more years." Only two power plants with an additional total generating capacity of 500 MW are expected to be commissioned to in 2009-10, far short of the state's anticipated annual peak demand deficit of 3,881 MW predicted by the CEA. In contrast, four power plants with total generating capacity of 2,050 MW are expected to be commissioned in the neighboring state of Gujarat in 2009-10. As a result, the CEA has estimated Gujarat's energy shortage at 4 percent, as compared to Maharashtra's energy deficit of 31 percent of expected demand in 2009-10.

Short-lived Success of Zero Power Outage Model

¶8. (U) Pune was the first city in Maharashtra to develop an innovative model to address the power crisis. Under the initiative of the Confederation of Indian Industries (CII), Pune city's residents agreed to pay more to enjoy uninterrupted power supply. The unused power generated by "captive" power plants, owned by industries to meet their own in-house power requirements, was used to bridge the demand gap and the remaining shortfall was met by purchasing power on the energy exchange. As a result, Pune was spared from rolling power outages from June 2006 to June 2008.

¶9. (SBU) According to Pradeep Bhargava, the head of CII's Maharashtra council and the architect of the zero power outage model, consumers had to pay around one cent for each additional unit of power consumed in excess of 300 MW per month -- the reliability charge for the expediency of continuous power supply. Only a fraction of Pune's 300,000-400,000 paying customers (installed meters) had to pay for the benefit of uninterrupted power supply, he said, because few customers consumer more than 300 MW per month. The Pune model was also adopted by several districts outside Mumbai including Thane, Mulund, Bhandup, and Navi Mumbai. However, this model soon broke down and planned power outages resumed in these areas. According to Bhargava, the state electricity boards kept increasing the amount of power that had to be privately purchased to prevent scheduled power outages, which the city's consumers could not meet. The fundamental gap between the demand and supply of power and, consequently, scheduled power outages, will continue for another four to five years until capacity catches up with demand, he admitted.

¶10. Comment: (SBU) Many Indian states suffer from power shortages, but Maharashtra - once an industrial leader - has done more to squander its potential than most other states. The main reason for this is the widespread belief that the Congress-NCP coalition has given the state almost a decade of poor governance, losing traction to other states - such as Gujarat - that are able to attract businesses and industries through better governance. This inaction has forced residents to go without power for four to twelve hours each day in one of the richest states in India, and driven up energy costs for industry which is forced to make alternative arrangements for regular power supply. Subsequent state governments after the Dabhol debacle have made no attempt to regain foreign investor confidence and encourage investment in power generation projects in the state. Indeed, power sector experts often attribute the lack of U.S. foreign investment in power project development in India to the failure of Dabhol and erratic state governance. The failure of Dabhol -- along with shortsighted planning, poor governance, and transparency issues -- underscores the reluctance of foreign investors to enter the power sector; this continuing impasse is a major factor in Maharashtra's -- and India's -- lagging power production that falls far short of burgeoning demand. The free power election sop offered by the Congress-NCP three years after Dabhol collapsed was seen by many as precipitating the power crisis and placing the state in a

MUMBAI 00000195 004.2 OF 004

perpetual state of excess demand for power. While voting against the Congress-NCP party in the national elections appears to be an obvious choice for the disgruntled Maharashtra voters suffering from regular power blackouts, political observers note that voting in Maharashtra is often driven more by caste factors and campaign promises rather than bad (or good) state or federal government decisions and policymaking. End Comment.
KAUFFMAN